



National State Auditors Association

September 10, 2007

David A. Vaudt, CPA
Auditor of State
Office of Auditor of State
State Capitol Building
Des Moines, Iowa 50319

Dear Mr. Vaudt:

We have reviewed the system of quality control of the Iowa Office of Auditor of State (the office) in effect for the period July 1, 2006, through June 30, 2007. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system, and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with government auditing standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with government auditing standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of the Iowa Office of Auditor of State in effect for the period July 1, 2006, through June 30, 2007, has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

As is customary in a peer review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the opinion expressed in this report.

Neal E. Weatherspoon, Team Leader
National State Auditors Association
External Peer Review Team

Alicia Boyd, Concurring Reviewer
National State Auditors Association
External Peer Review Team



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David A. Vaudt, CPA
Auditor of State
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State Capitol Building
Des Moines, Iowa 50319

Dear Mr. Vaudt:

We have reviewed the system of quality control of Iowa Office of Auditor of State (the office) in effect for the period July 1, 2006, through June 30, 2007, and have issued our report thereon dated September 10, 2007. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

Comment—When using the findings of a specialist AICPA standards state that the auditor should (a) obtain an understanding of the methods and assumptions used by the specialist, (b) make appropriate tests of data provided to the specialist, and (c) evaluate whether the specialist's findings support the related assertions in the financial statements.

The office's quality control policies and procedures required auditors to perform procedures to comply with these AICPA standards when relying on the work of a specialist. However, in two engagements we reviewed the auditors did not perform appropriate tests of data provided by the auditee to the specialist. These oversights were not detected during the review process. As a result, the auditors did not have reasonable assurance that the estimated liability developed by the specialists was based on accurate information.

Recommendation—We recommend that the office ensure that staff comply with its quality control policies and procedures for relying on the work of a specialist and ensure compliance through manager review.

Comment—AICPA standards establish additional audit procedures to assess the adequacy of the work performed by another auditor when the principal auditor elects not to make reference to the other auditor in its independent auditor's report. In addition, AICPA standards establish that the auditor's report should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion.

The office's quality control policies and procedures require auditors to perform the additional procedures established by AICPA standards when electing not to make reference to the work of another auditor. However, for the audit of the State of Iowa we noted that these additional procedures were not performed. In one instance, the date on the other auditor's report was approximately one month later than the date on the

Independent Auditor's Report for the State of Iowa. The financial statement audited by the other auditor included approximately \$1.6 billion of outstanding revenue bonds.

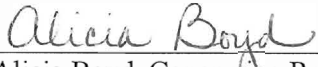
Recommendation – We recommend that the office ensure that staff comply with its quality control policies and procedures when electing not to make reference to the work of another auditor in the independent auditor's report and ensure that compliance through managerial review. In addition, the office should ensure that the report of another auditor is dated prior to the fieldwork completion date.

In the attached correspondence dated August 30, 2007, the Iowa Office of Auditor of State provided its response to the letter of comments recommendation(s).

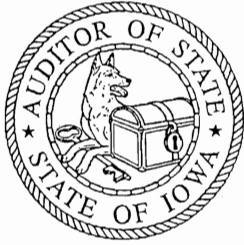
Respectfully submitted,



Neal Weatherspoon, Team Leader
National State Auditors Association
External Peer Review Team



Alicia Boyd, Concurring Reviewer
National State Auditors Association
External Peer Review Team



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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August 30, 2007

Neal Weatherspoon, IT Audit Manager
Secretary of State, Division of Audit
255 Capitol Street NE, Suite 500
Salem, OR 97310

Alicia Boyd, PAA Manager
Office of the State Auditor
105 Sea Hero Road, Suite #2
Frankfort, KY 40601

Dear Mr. Weatherspoon and Ms. Boyd:

Enclosed are our responses for the QCR review team Letter of Comments for the year ended June 30, 2007.

1. QCR comment regarding relying on the work of a specialist:

Recommendation – We recommend that the state audit organization ensure that staff comply with its quality control policies and procedures for relying on the work of a specialist and ensure compliance through manager review.

Response – This was an oversight. We will continue to remind staff of the AICPA standards and apply appropriate procedures to place reliance on the work of specialists. The underlying data provided to the specialists will be tested.

2. QCR comment regarding relying on and electing not to make reference to other auditors:

Recommendation – We recommend that the state audit organization ensure that staff comply with its quality control policies and procedures when electing not to make reference to the work of another auditor in the independent auditor's report and ensure compliance through manager review. In addition, the state audit organization should ensure that the report of another auditor is dated prior to their fieldwork completion date.

Response - We will perform additional procedures in accordance with AICPA standards when electing not to make reference to the work of other auditors for audits considered to be significant. We will continue to make every effort to ensure certain reports of other auditors are received prior to the State of Iowa CAFR report date.

We certainly appreciate the review team's professionalism throughout the process.

Sincerely,

A handwritten signature in cursive script that reads "David A. Vaudt".

David A. Vaudt